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June 3, 1998

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
Office of the Secretary
1919 M Street, NW - Room 222
Washington, DC 20554

RECEIVED
JUN 3 - 1998
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: Ex parte - CC Docket No. 94-1 (Price Cap Review)

Dear Ms. Salas:

Pursuant to the request of the Chief of the Common Carrier Bureau, AT&T is providing its response to the questions contained in a June 1, 1998 letter from Senators Byron L. Dorgan and Tom Daschle to Chairman William Kennard. Commission staff have advised AT&T that pursuant to 47 C.F.R. Section 1.1204(a)(10), AT&T is permitted to respond to this request notwithstanding the public notice released June 2, 1998 announcing that issues affected by this request will be addressed at an open Commission meeting on June 9, 1998.

Very truly yours,

Rick D. Bailey

Enclosure

cc: Mr. J. Nakahata
Mr. T. Power
Mr. J. Casserly
Mr. K. Martin
Mr. K. Dixon
Mr. P. Gallant
Mr. A. R. Metzger
Mr. J. Schlichting
Ms. R. Milkman

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June 3, 1998

Mr. Richard Metzger, Jr.
Chief, Common Carrier Bureau
Federal Communications Commission
1919 M Street, NW - Room 500
Washington, DC 20554

Re: CC Docket Numbers 96-262, 96-45

Dear Mr. Metzger:

I am responding to your June 1, 1998 letter in which you ask that AT&T respond to the questions that Chairman Kennard received that day from Senators Dorgan and Daschle.

(1) Can the Commission ensure that the long distance companies pass through to their customers the full benefit of access reductions? Further, will residential customers, including basic schedule residential customers, receive proportionate reductions in their long distance rates?

Response: The Commission's pro-competitive policies have resulted in a robustly competitive long distance market. That competition has ensured that long distance customers receive the full benefits of access reductions. There are hundreds of long distance companies that customers can choose from. There are thousands of long distance pricing plans and promotional offerings, including AT&T's "basic schedule", that customers can choose from. It is well understood that competition drives prices to cost. Thus, as access costs decline, competitive pressure has resulted in lower long distance prices and will continue to cause prices to decline. The declining prices in the long distance industry since 1984 demonstrate this to be true. For example, in a letter to Chairman Kennard dated March 5, 1998 (CCB/CPD 98-13), AT&T estimated that for the period July 1, 1997 through June 30, 1998, its average revenue per minute for interstate services will have dropped by nearly $2.5 billion, saving customers $977 million in excess of access reductions realized by AT&T. Chairman Kennard recognized just last week that "customers are enjoying the lowest long distance rates in history."

Moreover, AT&T has stated that it will pass along to customers the benefit of future access charge reductions. The nature of those pricing actions will depend upon the size of the access reduction that occurs, what access rates are reduced and competitive market conditions that exist at the time. The competitive market will ensure that long distance prices are economically efficient and that prices are driven to cost. The market should be allowed to operate efficiently and undue regulatory constraints and costs should be avoided.

(2) The various changes in customer's long distance bills in the last year have created a great deal of confusion among consumers. If the Commission were to direct local telephone companies to recover their universal service contributions directly rather than through increasing access charges on long distance carriers, what changes, if any, will long distance carriers make to their bills? For example, will carriers continue placing line items identifying costs for universal service programs on long distance carriers' bills? If so, which customers' bills?

Response: At the outset, AT&T notes that it is committed to take and has taken all reasonable steps to keep its customers informed of its pricing actions.

If the Commission were to direct local telephone companies to recover the universal service contributions that local exchange carriers currently pass along to long distance carriers through access charges (known as "flow-back") directly from their end user customers, long distance carriers would experience a reduction in access costs. AT&T has repeatedly stated that the monopoly-level access charges of the local exchange carriers must be moved to economic cost. Any action that has that effect, including the elimination of flow-back, is welcome. As noted above, AT&T will pass along to customers the full benefit of access charge reductions, including reductions resulting from the elimination of flow-back.

Because the separate line item charge for the universal service programs that AT&T is considering for residential customers does not include flow-back, but rather reflects the direct universal service assessments on AT&T, the elimination of "flow-back" would not necessarily cause any change in AT&T's separate line item charge. However, as AT&T discussed in several recent ex parte filings in Docket Nos. 94-1, 96-45 and 96-262 (May 19, 22 and 29), there are a number of variables and approaches that could effect the size of the funds, the size of any line item charges and the way in which those charges are recovered. AT&T, at the request of Commission staff, has analyzed the impact of some of these variables and scenarios. AT&T's ultimate pricing decisions, including the potential for recovering universal service obligations through a flat rate charge, will depend upon the outcome of these variables. Although AT&T has not taken and does not now take any position on these variables or scenarios, one possible scenario is that access savings from eliminating the flow-back mechanisms could be passed on to residential customers in the form of a lower line item charge.

Respectfully submitted,